

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 EB-07 EA-07 AID-05 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 IO-13 NEA-10 NSAE-00

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: US PROPOSAL FOR OECD INITIATIVE ON
INTERNATIONAL PORTFOLIO INVESTMENT

REFTEL: STATE 245116/1

1. AS REQUESTED IN REFTEL, SUBJECT DISCUSSED WITH
APPROPRIATE FINANCE MINISTRY OFFICIALS, INCLUDING
DANIEL LEBEGUE, CHIEF OF THE BALANCE OF PAYMENTS
AND EXCHANGE REGULATIONS OFFICE OF THE FINANCE
MINISTRY (TRESOR). THEIR VIEWS ARE AS FOLLOWS:

A) THEY ARE SUPPORTIVE OF SECRETARY SIMON'S JUNE 22
PROPOSAL AND WILL BACK THE IDEA OF A MANDATE FOR
THE COMMITTEE ON FINANCIAL MARKETS (CFM) TO STUDY
EXISTING IMPEDIMENTS TO PORTFOLIO CAPITAL FLOWS AND
POSSIBLE WAYS TO REDUCE THESE.

B) THEY HAVE NO OBJECTION TO THE CFM BEING GIVEN
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THE LEAD IN THIS AREA INSTEAD OF THE INVISIBLES

COMMITTEE, EVEN THOUGH THE RATIONALE FOR THIS PREFERENCE IS NOT CLEAR TO THEM.

C) FRENCH OFFICIALS CONSIDER THEIR POLICY ON PORTFOLIO INVESTMENT FLOWS AS "VERY LIBERAL": PORTFOLIO INVESTMENT IS PERMITTED TO FLOW FREELY EITHER INTO OR OUT OF FRANCE. THE ONLY REQUIREMENT IS THAT FRENCH PURCHASERS OF FOREIGN STOCKS MUST DEPOSIT THEM WITH A FRENCH BANK (OR OTHER AUTHORIZED AGENT) IF THE STOCKS ARE BROUGHT INTO THE COUNTRY. IF NOT, THEY MUST BE DEPOSITED IN A BANK IN THE UNITED STATES OR ELSEWHERE WHICH HAS A CORRESPONDENT RELATIONSHIP WITH A FRENCH BANK. THE GOF DEFINES PORTFOLIO INVESTMENT AS STOCK PURCHASES THAT DO NOT EXCEED 20 PERCENT OF A COMPANY'S TOTAL EQUITY. STOCK PURCHASES ABOVE THIS THRESHHOLD ARE DEFINED AS DIRECT INVESTMENTS AND REQUIRE INVESTMENT APPLICATIONS THAT ARE SUBJECT TO FINANCE MINISTRY APPROVAL.

2. LEBEGUE EXPECTS TO ATTEND THE NOVEMBER 4 AND 5 MEETING OF THE CFM. HE SEEMS PERSONALLY INTERESTED IN THE QUESTION OF OBSTACLES TO PORTFOLIO INVESTMENT, ALTHOUGH SKEPTICAL THAT LIBERALIZATION IN THIS AREA WILL DO MUCH, IF ANYTHING, TO ENCOURAGE PORTFOLIO CAPITAL FLOWS TO THE LDC'S.
RUSH

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